Overview of Islamic Banking in Malaysia

Since the 1970s, Islamic banking has emerged as a new reality in the international financial scene. Its philosophies and principles are however, not new, having been outlined in the Holy Qur'an and the *Sunnah* of Prophet Muhammad (p.b.u.h.) more than 1,400 years ago. The emergence of Islamic banking is often related to the revival of Islam and the desire of Muslims to live all aspects of their live in accordance with the teachings of Islam.

In Malaysia, separate Islamic legislation and banking regulations exist side-by-side with those for the conventional banking system. The legal basis for the establishment of Islamic banks was the Islamic Banking Act (IBA) which came into effect on 7 April 1983. The IBA provides BNM with powers to supervise and regulate Islamic banks, similar to the case of other licensed banks. The Government Investment Act 1983 was also enacted at the same time to empower the Government of Malaysia to issue Government Investment Issue (GII), which are government securities issued based on Syariah principles. As the GII are regarded as liquid assets, the Islamic banks could invest in the GII to meet the prescribed liquidity requirements as well as to invent their surplus funds.

The first Islamic bank established in the country was Bank Islam Malaysia Berhad (BIMB) which commenced operations on 1 July 1983. In line with its objectives, the banking activities of the bank are based on Syariah principles. After more than a decade in operations, BIMB has proved to be a viable banking institution with its activity expanding rapidly throughout the country with a network of 80 branches and 1,200 employees. The bank was listed on the Main Board of the Kuala Lumpur Stock Exchange on 17 January 1992.

The long-term objective of BNM is to create an Islamic banking system operating on a parallel basis with the conventional banking system. However, similar to any banking system, an Islamic banking system requires three vital elements to qualify as a viable system, i.e.:-

- a large number of players;
- a broad variety of instruments; and
- an Islamic money market.

In addition, an Islamic banking system must also reflect the socio-economic values in Islam, and must be Islamic in both substance and form.

Recognising the above, BNM adopted a step-by-step approach to achieve the above objective. The first step to spread the virtues of Islamic banking was to disseminate Islamic banking on a nation-wide basis, with as many players as possible and to be able to reach all Malaysians. After a careful consideration of various factors, BNM decided to allow the existing banking institutions to offer

Islamic banking services using their existing infrastructure and branches. The option was seen as the most effective and efficient mode of increasing the number of institutions offering Islamic banking services at the lowest cost and within the shortest time frame. Following from the above, on 4 March 1993 BNM introduced a scheme known as *"Skim Perbankan Tanpa Faedah"* (Interest-free Banking Scheme) or SPTF in short.

In terms of products and services, there are more than 40 Islamic financial products and services that may be offered by the banks using various Islamic concepts such as *Mudharabah*, *Musyarakah*, *Murabahah*, *Bai' Bithaman Ajil* (*Bai' Muajjal*), *Ijarah*, *Qardhul Hasan*, *Istisna'* and *Ijarah Thumma Al-Bai'*.To link the institutions and the instruments, the Islamic Interbank Money Market (IIMM) was introduced on 4 January 1994.

In October 1996, BNM issued a model financial statement for the banking institutions participating in the SPI requiring the banks to disclose the Islamic banking operations (balance sheet and profit and loss account) as an additional item under the Notes to the Accounts.

As part of the effort to streamline and harmonise the Syariah interpretations among banks and takaful companies, BNM established the National Syariah Advisory Council on Islamic Banking and Takaful (NSAC) on 1 May 1997 as the highest Syariah authority on Islamic banking and takaful in Malaysia.

On 1 October 1999, a second Islamic bank, namely Bank Muamalat Malaysia Berhad (BMMB) commenced operations. The establishment BMMB was the effect of the spin-off following the merger between Bank Bumiputra Malaysia Berhad (BBMB) and Bank of Commerce (Malaysia) Berhad (BOCB). Under the merger arrangement, the Islamic banking assets and liabilities of BBMB, BOCB and BBMB Kewangan Berhad (BBMBK) were transferred to BBMB, while the conventional operations of BBMB, BOCB and BBMBK were transferred to BOCB accordingly. In addition, BMMB was given 40 branches of BBMB and BBMBK in various locations throughout Malaysia and a staff workforce of 1,000, migrated from BBMB, BOCB and BBMBK.

Government Investment Issues

In 1983, the Malaysian Parliament passed the Government Investment Act to enable the Government of Malaysia (Government) to raise funds through the issuance of a non-interest bearing certificates known as the Government Investment Issues (GII). The first issuance of GII was introduced in July 1983. The primary reason for the introduction of the GII is to enable the Islamic bank to hold first class liquid assets instruments to meet the statutory liquidity requirements as well as for investment.

The GII was initially issued based on the Shariah contract of *Qardh Hasan* (benevolent loan). Under this contract, the purchase of GII by any institution or individuals will be considered as a benevolent loan to the Government to undertake developmental projects for the benefit of the nation. The Government is obliged to return the principal amount to the providers of funds (institutions or individuals) at maturity. Any return on the loans (if any) is at the absolute discretion of the Government.

In 2001, the basis of GII's issuance was further enhanced to accommodate the need to develop further the secondary market activities of the Islamic money market. An alternative concept of GII based on Sell and Buy Back Arrangement was introduced in June 2001. Under this arrangement, the Government will sell its identified assets at an agreed cash price to the buyer and subsequently buy back the same assets from the buyer at an agreed purchase price to be settled at a specified future date.

In the primary market, the Government will offer to sell specified nominal value of its assets through a tender process. Interested parties may place their orders to purchase the Government's assets through participating financial institutions (PFIs). PFIs that offer the most competitive price will purchase the Government's assets and subsequently, the Government will buy back the assets from the PFIs at par price equivalent to the nominal value, which will be settled at a specified future date or maturity. The difference between the selling price and the purchase price (nominal value) represents the profit of the PFIs. The obligation of the Government to settle the purchase price is securitised in the form of GII and issued to the PFIs. At maturity, the Government will redeem the GII and pay the nominal value of the securities to the GII holders. The GII constitutes as one of the financial instruments that is actively traded in the Islamic Interbank Money Market

Islamic Inter-bank Money Market

The Islamic inter-bank money market (IIMM) was introduced on January 3, 1994 as a short-term intermediary to provide a ready source of short-term investment outlets based on Syariah principles. Through the IIMM, the Islamic banks and banks participating in the SPI would be able to match their funding requirements effectively and efficiently. BNM issued the Guidelines on the IIMM on December 18, 1993 to facilitate proper implementation of the IIMM.

The IIMM covers the following aspects:-

- Interbank trading of Islamic financial instruments; and
- Mudharabah Interbank Investments ("MII")

Only Islamic banks, commercial banks, merchant banks and eligible finance companies and discount houses are allowed to participate in the IIMM.

Interbank trading

Eligible banking institutions are allowed to trade in the designated Islamic financial instruments, such as Islamic accepted bills and Islamic debt securities among themselves. GIC are non-tradable but the players may exchange the papers among themselves based on the price issued by BNM.

Mudharabah interbank investments (MII)

MII refers to a mechanism whereby a deficit Islamic banking institution (‘investee bank”) can obtain investment from a surplus Islamic banking institution (“investor bank”) based on Mudharabah (profit-sharing). The period of investment is from overnight to 12 months, while the rate of return is based on the rate of gross profit before distribution for investments of 1-year of the investee bank. The profit-sharing ratio is negotiable among both parties. The investor bank at the time of negotiation would not know what the return would be, as the actual return will be crystallised towards the end of the investment period. The principal invested shall be repaid at the end of the period, together with a share of the profit arising from the used of the fund by the investee bank. Beginning February 2, 1996, BNM introduced the minimum benchmark rate for the MII i.e. the prevailing rate of the Government Investment Issues plus a spread of 0.5 per cent. The purpose of the benchmark rate is to ensure that only banks with reasonable rate returns participate in the MII.

The National Syari'ah Advisory Council

The National Syariah Advisory Council on Islamic Banking and Takaful (NSAC) was established on 1 May 1997. The primary objectives of the NSAC are as follows:-

- To act as the sole authoritative body to advise BNM on Islamic banking and takaful operations;
- To co-ordinate *Syari'ah* issues with respect to Islamic banking and finance (including takaful); and
- To analyse and evaluate *Syari'ah* aspects of new products/schemes submitted by the banking institutions and takaful companies.

Islamic Banking Concepts

Wadiah Yad Dhamanah **(savings with guarantee)**

Refers to goods or deposits, which have been deposited with another person, who is not the owner, for safekeeping. As wadiah is a trust, the depository becomes the guarantor and, therefore guarantees repayment of the whole amount of the deposits, or any part thereof, outstanding in the account of depositors, when demanded. The depositors are not entitled to any share of the profits but the depository may provide returns to the depositors as a token of appreciation.

Mudharabah **(profit-sharing)**

Refers to an agreement made between a capital provider and another party (entrepreneur), to enable the entrepreneur to carry out business projects, based on a profit sharing basis, of a pre-agreed ratio. In the case of losses, the losses are borne by the provider of the funds.

Musyarakah **(joint venture)**

Refers to a partnership or joint venture for a specific business, whereby the distribution of profits will be apportioned according to an agreed ratio. In the event of losses, both parties will share the losses on the basis of their equity participation.

Murabahah **(cost plus)**

Refers to the sale of goods at a price, which includes a profit margin as agreed to by both parties. Such sales contract is valid on the condition that the price, other costs and the profit margin of the seller are stated at the time of the agreement of sale.

Bai' Bithaman Ajil **(deferred payment sale)**

Refers to the sale of goods on a deferred payment basis at a price, which includes a profit margin agreed to by both parties.

Bai' al-Dayn **(debt trading)**

Refers to debt financing, i.e. the provision of financial resources required for production, commerce and services by way of sale/purchase of trade documents and papers. Only documents

evidencing real debts arising from bona fide merchant transactions can be traded.

Bai' al-Inah

The financier sells an asset to the customer on a deferred payment and then the financier immediately repurchases the asset for cash at a discount.

***Al-Ijarah Thumma al-Bai'* (leasing and subsequently purchase)**

Refers to a Al-Ijarah (leasing/renting) contract to be followed by Al-Bai (purchase) contract. Under the first contract, the hirer leases the goods from the owner at an agreed rental over a specified period. Upon expiry of the leasing period, the hirer enters into a second contract to purchase the goods from the owner at an agreed price.

***Ijarah* (leasing)**

Refers to an arrangement under which the lessor leases equipment, building or other facility to a client at an agreed rental against a fixed charge, as agreed by both parties.

***Qardhul Hassan* (benevolent loan)**

Refers to an interest free loan. The borrower is only required to repay the principal amount borrowed, but he may pay an extra amount at his absolute discretion, as a token of appreciation.

***Bai' as-Salam* (future delivery)**

Refers to an agreement whereby payment is made in advance for delivery of specified goods in the future.

***Bai' al-Istijrar* (supply contract)**

Refers to an agreement between the client and the supplier, whereby the supplier agrees to supply a particular product on an on going basis, for example monthly, at an agreed price and on the basis of an agreed mode of payment.

***Kafalah* (guarantee)**

Refers to a contract of guarantee by the contracting party or any third party to guarantee the performance of the contract terms by contracting parties.

***Rahnu* (collateralised borrowing)**

Refers to an arrangement whereby a valuable asset is placed as collateral for debt. The collateral may be disposed in the event of default.

***Wakalah* (nominating another person to act)**

Refers to a situation, where a person nominates another person to act on his behalf.

***Hiwalah* (remittance)**

Refers to a transfer of funds/debt from the depositor's/debtor's account to the receiver's/creditor's account whereby a commission may be charged for such service.

***Sarf* (foreign exchange)**

Refers to the buying and selling of foreign currencies.

***Ujr* (fee)**

Refers to commissions or fees charged for services.

***Hibah* (gift)**

Refers to gifts award voluntarily in return for loan given.

List of Financial Institutions Offering Islamic Banking Services

The Islamic banks are not the only financial institutions involved in Islamic banking. Other financial institutions also offer Islamic banking services through the "Islamic Banking Scheme".

Islamic Banks

1. Bank Islam Malaysia Berhad
2. Bank Muamalat Malaysia Berhad

Participating banks in the Islamic Banking Scheme
Commercial Banks

1. AFFIN Bank Berhad
2. Alliance Bank Berhad
3. AmBank Berhad
4. Citibank Berhad
5. EON Bank Berhad
6. Hong Leong Bank Berhad
7. HSBC Bank (M) Berhad
8. Malayan Banking Berhad
9. OCBC Bank (Malaysia) Berhad
10. Public Bank Berhad
11. RHB Bank Berhad
12. Southern Bank Berhad
13. Standard Chartered Bank Malaysia Berhad

Finance Companies

1. AFFIN-ACF Finance Berhad
2. AmFinance Berhad
3. EON Finance Berhad
4. Hong Leong Finance Berhad
5. Mayban Finance Berhad
6. Public Finance Berhad
7. Southern Finance Berhad

Merchant Banks

1. AFFIN Merchant Bank Berhad
2. Alliance Merchant Berhad
3. AmMerchant Bank Berhad
4. Commerce International Merchant Bankers Berhad

Discount Houses

1. Abrar Discounts Berhad
2. AFFIN Discount Berhad
3. Amanah Short Deposits Berhad
4. CIMB Discount House Berhad
5. KAF Discounts Berhad

6. Malaysia Discount Berhad
7. Mayban Discount Berhad

Range of Islamic Banking Products and Services in Malaysia

Deposit

Products / Services	Applicable Concepts
Savings account-i	*Wadiah / Mudharabah*
Current account-i	*Wadiah / Mudharabah*
General investment account-i	*Mudharabah*
Special investment account-i	*Mudharabah*
Specific investment account-i	*Mudharabah*

Retail Financing

Products / Services	Applicable Concepts
Cash line facility-i	*Bai' Bithaman Ajil / Murabahah*
Computer financing-i	*Bai' al-Inah / Murabahah*
Education financing-i	*Bai' Bithaman Ajil / Bai' al-Inah*
Hire purchase-i	*Al-Ijarah Thumma al Bai'*
Home / House financing-i	*Bai' Bithaman Ajil*
Land financing-i	*Bai' Bithaman Ajil*
Leasing-i	*Ijarah*
Pawn broking-i	*Ar-Rahnu*
Personal financing-i	*Bai' Bithaman Ajil / Bai' al-Inah / Murabahah*
Plant & machinery financing-i	*Al-Ijarah Thumma al-Bai'*
Project financing-i	*Bai' Bithaman Ajil*
Property financing-i	*Bai' Bithaman Ajil*
Share financing facility-i	*Bai' Bithaman Ajil / Mudharabah / Musyarakah*
Shop house financing-i	*Bai' Bithaman Ajil*
Sundry financing-i	*Bai' Bithaman Ajil*
Umrah & visitation financing-i	*Bai' Bithaman Ajil*
Unit trust financing-i	*Bai' Bithaman Ajil / Mudharabah / Musyarakah*
Working capital financing-i	*Murabahah*

Card Services

Products / Services	Applicable Concepts
Charge card-i	*Qardul Hasan*
Credit card-i	*Bai' al-Inah*

Trade Finance

Products / Services	Applicable Concepts
Accepted bills-i	*Murabahah*
Bank guarantee-i	*Kafalah*
Export credit refinancing-i	*Murabahah*
Letter of credit-i	*Wakalah / Murabahah / Musyarakah*
Shipping guarantee-i	*Kafalah*
Trust receipt-i	*Murabahah*

Money Market

Products / Services	Applicable Concepts
Bank Negara negotiable notes-i	*Bai' al-Inah*
Commercial papers-i	*Murabahah*
Government investment issues-i	*Bai' al-Inah*
Negotiable debt certificate-i	*Bai' Bithaman Ajil*
Negotiable instument of deposit-i	*Mudharabah*

Banking Services

Products/Services	Applicable Concepts
Stock broking services	*Ujr*
TT / Funds Transfer	*Ujr*
Travellers' Cheques	*Ujr*
Demand Draft	*Ujr*
Cashiers' Order	*Ujr*
Standing Instruction	*Ujr*
ATM Service	*Ujr*
Telebanking	*Ujr*

Number of financial institutions

	As at end					
	1998	1999	2000	2001	2002	2003
Islamic banks	1	2	2	2	2	2
Commercial banks	25	23	21	14	14	13
Finance companies	18	16	14	10	10	7
Merchant banks	5	5	5	5	3	4
Discount Houses	-	7	7	7	7	7

Number of branches / SPI counters

	As at end					
	1998	1999	2000	2001	2002	2003
Islamic banks	80	120	122	122	128	132
Commercial banks						
Full-fledged branch	7	6	7	8	8	13
SPI counters	1,553	1,366	1338	1335	1335	1410
Finance companies						
Full-fledged branch	3	2	2	2	2	7
SPI counters	823	735	745	730	730	646
Merchant banks						
SPI counters	6	6	4	-	0	-

Financing deposit ratio (%)

	As at end					
	1998	1999	2000	2001	2002	2003
Islamic banks	90.3	51.9	56.8	52.6	55.8	55.5
Commercial banks	52.3	46.5	53.5	55.6	71.2	84.2
Finance companies	78.7	98.8	94.4	99.3	110.5	143.6
Merchant banks	69.4	194.0	88.7	114.6	117.5	91.7

Takaful Key Indicators

	As at end				March (1)
	2000	2001	2002	2003	2004
	Number				
No. of Registered Takaful Operators	**2**	**2**	**3**	**4**	**4**
No. of Offices	**124**	**125**	**127**	**132**	**132**
Branch	41	42	42	43	132
Takaful Desk (2)	83	83	85	89	-
No. of Agents (3)	**4,567**	**6,528**	**9,191**	**11,433**	**11,433**
Family Takaful	3,873	5,391	7,227	9,893	9,893
General Takaful	694	1,137	1,964	1,540	1,540
No. of Employees (4)	**1,178**	**1,553**	**1,716**	**2,161**	**2,161**
	%				
Market Share					
Asset	3.7	5.0	5.3	5.6	5.6
Contribution	3.8	4.1	5.3	5.4	5.4
Market Penetration	**2.5**	**3.2**	**3.8**	**4.5**	**4.7**

(1) 3-months ending March 2004
(2) All Takaful desks have been upgraded to branches with effect from year 2004
(3) Updated annually
(4) Updated half-yearly

Total Assets (RM'000)

Year	IB	CB	FC	MB	DH	SPI	Total
1983	369,800	-	-	-	-	-	369,800
1984	325,533	-	-	-	-	-	325,533
1985	514,233	-	-	-	-	-	514,233
1986	1,093,000	-	-	-	-	-	1,093,000
1987	932,321	-	-	-	-	-	932,321
1988	1,133,955	-	-	-	-	-	1,133,955
1989	1,368,341	-	-	-	-	-	1,368,341
1990	1,425,927	-	-	-	-	-	1,425,927
1991	1,400,391	-	-	-	-	-	1,400,391
1992	1,676,211	-	-	-	-	-	1,676,211
1993	2,009,088	-	-	-	-	-	2,009,088
1994	3,046,310	1,397,457	347,961	93,318	-	1,838,736	4,885,046
1995	3,248,000	2,038,916	651,277	259,230	-	2,949,423	6,197,423
1996	3,962,000	3,652,757	1,852,937	664,767	-	6,170,461	10,132,461
1997	5,202,104	9,077,980	2,924,381	676,839	-	12,679,200	17,881,304
1998	5,698,378	11,385,159	3,321,390	778,134	-	15,484,683	21,183,061
1999	11,724,223	15,589,065	4,806,146	1,439,347	2,577,707	24,412,265	36,136,488
2000	14,008,934	20,058,475	7,149,872	1,507,952	4,288,350	33,004,649	47,013,583
2001	17,404,759	27,026,076	9,821,594	1,352,925	3,747,833	41,948,428	59,353,187
2002	20,159,627	29,109,751	12,622,883	1,429,589	4,748,576	47,910,799	68,070,426
2003	20,929,723	36,829,959	17,915,089	1,715,826	4,826,243	61,287,117	82,216,840

Total Deposits (RM'000)

Year	IB	CB	FC	MB	DH	SPI	Total
1983	274,900	-	-	-	-	-	274,900
1984	241,355	-	-	-	-	-	241,355
1985	410,224	-	-	-	-	-	410,224
1986	967,000	-	-	-	-	-	967,000
1987	809,147	-	-	-	-	-	809,147
1988	1,022,231	-	-	-	-	-	1,022,231
1989	1,229,205	-	-	-	-	-	1,229,205
1990	1,221,146	-	-	-	-	-	1,221,146
1991	1,175,502	-	-	-	-	-	1,175,502
1992	1,321,845	-	-	-	-	-	1,321,845
1993	2,014,100	202,059	22,617	21,110	-	245,786	2,259,886
1994	2,891,920	1,463,139	246,710	53,944	-	1,763,793	4,655,713
1995	2,745,335	1,744,940	378,931	56,581	-	2,180,452	4,925,787
1996	3,283,289	2,666,432	966,439	347,986	-	3,980,857	7,264,146
1997	3,223,440	5,153,239	1,170,227	348,487	-	6,671,953	9,895,393
1998	4,039,747	8,415,160	2,110,717	606,456	-	11,132,333	15,172,080
1999	9,685,166	10,576,042	3,033,083	401,401	1,109,163	15,119,689	24,804,855
2000	11,301,587	16,089,422	5,392,597	867,143	2,267,652	24,616,814	35,918,401
2001	14,375,617	22,030,963	7,663,718	673,451	2,362,757	32,730,889	47,106,506
2002	16,421,224	23,353,941	9,094,553	684,241	3,630,568	36,763,303	53,184,527
2003	17,583,700	26,518,703	10,965,594	851,715	4,291,844	42,627,856	60,211,556

Total Financing (RM'000)

Year	IB	CB	FC	MB	DH	SPI	Total
1983	249,800	-	-	-	-	-	249,800
1984	161,111	-	-	-	-	-	161,111
1985	391,972	-	-	-	-	-	391,972
1986	525,000	-	-	-	-	-	525,000
1987	428,590	-	-	-	-	-	428,590
1988	609,374	-	-	-	-	-	609,374
1989	666,056	-	-	-	-	-	666,056
1990	817,398	-	-	-	-	-	817,398
1991	808,152	-	-	-	-	-	808,152
1992	1,028,724	-	-	-	-	-	1,028,724
1993	1,058,978	3,741	2,491	-	-	6,232	1,065,210
1994	1,274,929	274,069	163,460	25,310	-	462,839	1,737,768
1995	1,966,597	842,557	452,872	229,986	-	1,525,415	3,492,012
1996	2,259,069	2,125,213	1,224,931	392,518	-	3,742,662	6,001,731
1997	3,350,689	4,705,766	2,189,934	502,962	-	7,398,662	10,749,351
1998	3,471,438	4,702,815	1,878,449	408,521	-	6,989,785	10,461,223
1999	5,029,537	4,920,513	2,995,546	778,202	27,773	8,722,034	13,751,571
2000	6,423,392	8,533,577	5,089,803	769,320	-	14,392,700	20,816,092
2001	7,671,016	12,257,576	7,617,370	771,608	-	20,646,554	28,317,570
2002	9,158,244	16,706,384	10,049,633	803,483	-	27,559,500	36,717,744
2003	9,764,505	22,324,271	15,745,750	780,842	-	38,850,863	48,615,368

Overview of Takaful in Malaysia

The concept of takaful (Islamic insurance) was first introduced in Malaysia in 1985 when the first takaful operator was established to fulfil the need of the general public to be protected based on the Islamic principles. The legal basis for the establishment of takaful operators was the Takaful Act which came into effect in 1984.

Insurance as a concept does not contradict the practices and requirements of Shariah. In essence, insurance is synonymous to a system of mutual help. However, Muslim jurists are of the opinion that the operation of conventional insurance does not conform to the rules and requirements of Shariah as it involves the elements of uncertainty (Gharar) in the contract of insurance, gambling (Maisir) as the consequences of the presence of uncertainty and interest (riba) in its investment activities.

Takaful is an insurance concept in Shariah whereby a group of participants mutually agree among themselves to guarantee each other against defined loss or damage that may inflict upon any of them by contributing as tabarru’ or donation in the takaful funds. It emphasizes unity and co-operation among participants. Takaful is not a new concept as it had been practised by the Muhajirin of Mecca and the Ansar of Medina following the hijra of the Prophet over 1400 years ago.

Tabarru’ is the agreement by a participant to relinquish as donation, a certain proportion of the takaful contribution that he agrees or undertakes to pay, thus enabling him to fulfil his obligation of mutual help and joint guarantee should any of his fellow participants suffer a defined loss. The concept of tabarru’ eliminates the element of uncertainty in the takaful contract. The sharing of profit or surplus that may emerge from the operations of takaful is made only after the obligation of assisting the fellow participants has been fulfilled. Thus, the operation of takaful may be envisaged as a profit sharing business venture between the takaful operator and the individual members of a group of participants.

Takaful operations are regulated and supervised by BNM since 1988 with the appointment of the BNM Governor as the Director-General of Takaful. In October 1995, the ASEAN Takaful Group (ATG), a grouping of takaful operators in Brunei, Indonesia, Malaysia and Singapore was formed to enhance mutual co-operation and to facilitate the exchange of business among takaful operators in ASEAN. In 1997, the Malaysian takaful industry to a leap forward with the formation of ASEAN Retakaful International (L) Ltd. (ARIL) as an offshore retakaful company in Labuan. The establishment of ARIL was to create a vehicle for more dynamic retakaful exchanges among ATG members and providing additional retakaful capacity for further reduce their dependence on conventional reinsurance.

TYPES OF BUSINESS

The takaful business carried on by the Malaysian takaful operators are broadly divided into **family takaful business** (Islamic "life" insurance) and **general takaful business** (Islamic general insurance).

Family Takaful Business

In general, a family takaful plan is a combination of long-term investment and mutual financial assistance scheme. The objectives of this plan are: -

- to save regularly over a fixed period of time;
- to earn investment returns in accordance with Islamic principles; and
- to obtain coverage in the event of death prior to maturity from a mutual aid scheme.

Each contribution paid by the participant is divided and credited into two separate accounts, namely: -

- The Participants' Special Account (PSA)
  A certain proportion of the contribution is credited into the PSA on the basis of tabarru'. The amount depends on the age of the participant and the cover period.
- The Participants' Account (PA)
  The balance goes into the PA which is meant for savings and investments only.

Examples of covers available under family takaful business are as follows: -

- Individual family takaful plans;
- Takaful mortgage plans;
- Takaful plans for education;
- Group takaful plans; and
- Health/Medical takaful.

General Takaful Business

The general takaful scheme is purely for mutual financial help on a short-term basis, usually 12 months to compensate its participants for any material loss, damage or destruction that any of them might suffer arising from a misfortune that might inflict upon his properties or belongings. The contribution that a participant pays into the general takaful fund is wholly on the basis of tabarru'. If at the end of the period of takaful, there is a net surplus in the general takaful fund, the same shall be shared between the participant and the operator in accordance with the principle of al-Mudharabah, provided that the participant has

not incurred any claim and/or not received any benefits under the general takaful certificate.

The various types of general takaful scheme provided by the takaful operators include: -

- Fire Takaful Scheme;
- Motor Takaful Scheme;
- Accident/Miscellaneous Takaful Scheme;
- Marine Takaful Scheme; and
- Engineering Takaful Scheme.

Family takaful:

Individual plan	Mortgage Health Education Travel Family plan Waqaf
Group plan	Group family Group medical
Annuity	Employees Provident Fund Retirement

General takaful:

Motor	
Fire	
Marine, aviation and transit	
Miscellaneous	Includes:Personal accident Workmen corporation Liability Engineering House owners